INSIGHT

THE GREATEST WEALTH IS **YOUR PEACE OF MIND...**

BARNETT
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WEALTH MANAGEMENT

Keeping UK politics in perspective

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A change of Prime Minister naturally attracts attention. Britain has seen frequent political turnover in recent years, with Andy Burnham entering office in July as Britain's seventh prime minister in a decade. A new leader means new ministerial appointments, new priorities and, inevitably, a fresh round of speculation about what it might all mean. On a personal level, some of these policy changes might have material impacts, but when it comes to investment portfolios, the story is quite different.

Investors might reasonably ask whether a new occupant of No. 10 should change the way they think about portfolios. The short answer is probably far less than headlines might suggest.

Markets are not indifferent to politics, but neither do they sit around waiting for a reshuffle, a speech or a leadership contest before forming a view. Financial markets process information continuously. In an informationally efficient market, publicly available information is rapidly incorporated into prices. In essence, fortunately, investors do not need to discern what impact political changes may have on markets - markets are already doing this for them.

That is what markets do. They take the known facts, the range of possible outcomes, the hopes and fears, policy announcements, economic data and the views of millions of investors, and distil them into today's prices. Prices move when new information arrives, and new information is inherently unpredictable. What is your thesis? How is your view different to everyone else who is thinking similar thoughts? For investors tempted to react, a line from Nobel laureate Prof Robert Merton is worth considering.

> 'If the market is disagreeing with me, or doesn't seem to be aligned with me, that could be that I know things the market doesn't, but it also could be that the market knows things [I] don't!'
>
> Prof. Robert Merton

UK shares have risen and fallen under different governments. Over the longer term, the party in power appears to have made limited difference to the performance of publicly listed companies in the UK.

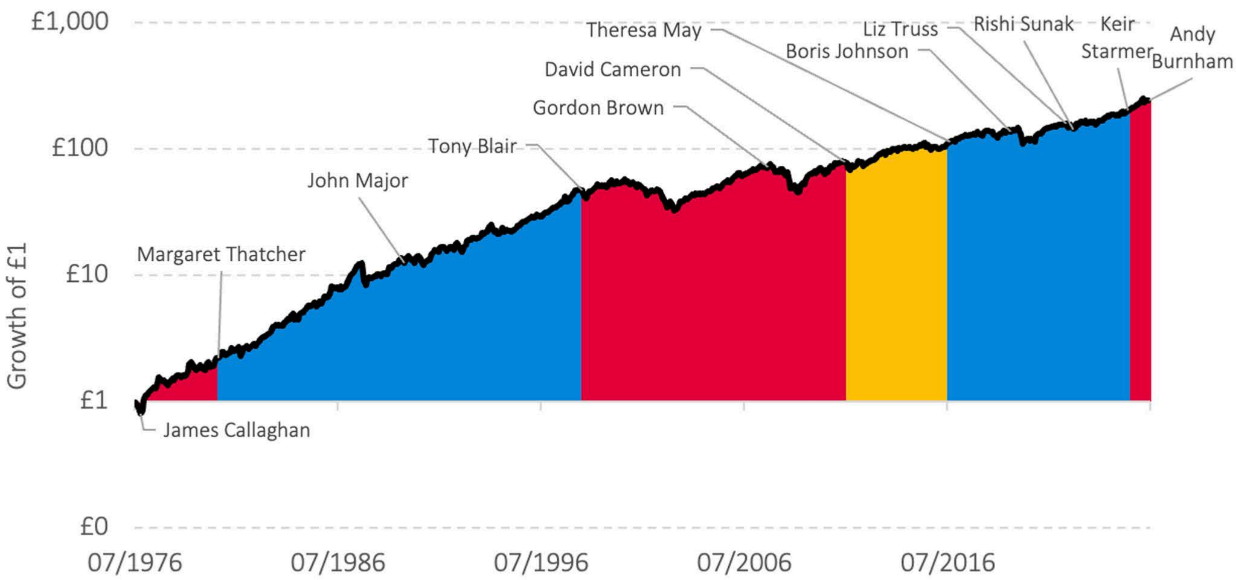

Figure 1: UK stocks 50y performance and UK government & PM in power

Source: Albion Strategic Consulting. Data source: Albion UK Stock Market Index, see smartersuccess.net/indices for more informaton about the Albion Research Indices, Jul-76 to Jun-26 in GBP. Blue = Conservative, red = Labour, yellow = coalition.

There is another important point that can be easy to forget: the UK stock market is not the UK economy. The FTSE 100 is an extremely international index. Over four-fifths of the sales of FTSE 100 companies come from outside the UK. The more domestically focused FTSE 250 still has overseas sales close to 55%[1]. The fortunes of many UK-listed companies are shaped by global phenomena, not just by activity at Westminster.

A key pillar of sensible investing is to understand that diversification is a powerful tool. Diversification across stocks, sectors and countries makes good sense. In global stock markets, the market capitalisation of UK companies makes up little more than 3% of the world, and the UK's GDP (output) is around the same level. For most investors, the UK therefore represents only a small part of a globally diversified portfolio. Despite the financial media regularly reporting on the movement of the 'footsie', it is of limited consequence to your investment returns

Investors can take the simple and, in our view, robust path to pursue good investing outcomes: remain patient, stay diversified, trust that market prices already reflect the collective view of investors, and allow capitalism to do its long-term work. Equity investors are part owners of companies. Bond investors are lenders. The rewards from both come from bearing risk sensibly over time, rather than speculating on outcomes.

The principles of good investing remain remarkably constant. Investors should keep politics in perspective.

End notes

1.
LSEG (March 2024), ‘The UK’s very global country index’.
https://www.lseg.com/en/insights/ftse-russell/the-uks-very-global-country-index
Accessed 6 Aug 2026.

Other notes and risk warnings

Use of Morningstar Direct© data

Risk warnings

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The registered office address of the Firm is 13 Portland Road, Edgbaston, Birmingham, B16 9HN

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BARNETT RAVENSCROFT WEALTH MANAGEMENT

Barnett Ravenscroft Wealth Management
13 Portland Road
Edgbaston
Birmingham
B16 9HN
UK

Tel: +44 (0)121 454 0910
Fax: +44 (0)121 410 5619
Email: info@brwm.co.uk
Web: www.brwm.co.uk